

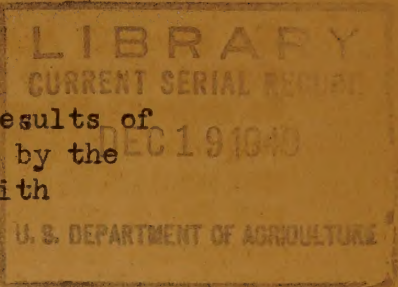
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UNITED STATES DEPARTMENT OF AGRICULTURE
Production and Marketing Administration

August 1948

The Potato Price-Support Programs

A brief statement of background, methods, and results of the potato price-support activities carried out by the U. S. Department of Agriculture in compliance with applicable laws.



Long-time records show that potato surpluses have occurred in about 7 years out of every 10. This situation arises from the fact that the exact potato acreage needed in any given year can be determined in advance only by the use of an estimated yield per acre. If the actual yield differs from the estimate, a surplus or shortage results.

In setting up goals for potato production, it would be plainly unwise to assume too high a yield. This procedure would eliminate surpluses but it would also increase the probability of serious shortages in any given year. For this reason, a conservative yield is used, based on historical crop records and adjusted to take account of improved production practices, seed, fertilizer, and spray materials. In this way we can make reasonably sure of having enough potatoes each season, but we must also be prepared to deal with surpluses in some seasons.

This creates a further problem. Potatoes are composed of water (80 percent), starch (16 percent), and fiber, minerals, vitamins, and other constituents (4 percent). Because potatoes remain living plant tissue, they are subject to sprouting, damage from bacteria, fungi, mechanical injuries, bruises, and loss of moisture. They can be stored successfully for any length of time only under conditions of low temperature (40 to 50 degrees F. is best), high humidity, and darkness. Early potatoes, dug while the tops are still green and the tubers still immature, are the most perishable of potatoes and must be moved promptly into consumption.

The highly perishable nature of potatoes accounts for the fact that losses of potatoes are the rule, not the exception. To cite one example: In 1934, the quantity of potatoes represented by shrinkage, loss after harvesting, and by feeding to livestock, amounted to more than 41 million bushels. In the same year, 163,000 acres of potatoes were abandoned without being harvested, due partly to bad weather and partly to poor price prospects. These losses occurred on farms and in shipping point warehouses. While such losses are a matter of statistical record, they customarily receive no extensive publicity. Since the passage of the Steagall Amendment, however, the Government has been active in acquiring and disposing of all eligible potatoes which could not be marketed at the minimum support price fixed by law. In carrying out these operations, some losses have occurred and accounting for them as a matter of public record has had the effect of focusing public attention upon them for the first time.

Background of USDA Price-Support Programs

The Steagall Amendment (a measure designed to assure adequate food supplies during the war) under which the Secretary of Agriculture has been required to support the price of any agricultural commodity for which he publicly requested an increase in production, was passed in 1941. By amendment, this was amplified to require continuation of price support during the emergency and for 2 calendar years following December 31, 1946, the date on which the emergency was declared ended. Potatoes were made a "Steagall commodity" November 28, 1942, have been supported since that time, and, under this legislation, will continue to be supported until December 31, 1948.

Level of Price Support

The level of support was fixed by the Stegall Amendment at not less than 90 percent of the parity price as of the beginning of the marketing year. Parity is the price a commodity produced by farmers must command to be equal in relative value to the commodities farmers buy. For potatoes it is computed by multiplying the average price received by farmers from August 1919, through July 1929, by the index of prices paid by farmers, and adjusting this base price to take into account the grading, sacking, inspection, and loading of potatoes for shipment. The Agricultural Act of 1948 extends the 90 percent support to all potatoes harvested prior to January 1, 1949, but thereafter the support level would range between 60 and 90 percent of parity.

Methods of Price Support

The Department has utilized several approaches in carrying out its statutory price-support obligations. One method has been the purchase program, under which the Department buys potatoes at applicable support prices and disposes of them in available noncommercial outlets. This plan has proved particularly adaptable to early crop potatoes, which cannot be stored.

Another approach has been a loan program under which persons eligible for price support have been able to pledge potatoes as collateral for loans under varying conditions. In some instances, loans have been a means of affording price support, but more recently they have been supplemental to other operations by furnishing needed financing at harvest time, thus avoiding disorderly selling as a means of obtaining funds quickly.

Under diversion programs, participants have usually been processors or livestock feeders who purchase potatoes at support prices for their own account and receive compensating indemnity payments. A variation of this plan involves indemnity payments in connection with exports of potatoes.

Disposition of Potatoes Acquired

Potatoes acquired by the Department under its price-support operations are disposed of in both food and nonfood channels.

Food Outlets: These get first priority, and the first move is to give attention to domestic school lunch and welfare outlets able to use potatoes in carload lots. Potatoes are furnished free, including transportation. Exports are pushed energetically, but the element of perishability limits their practicability to cool weather months.

Next, potatoes are processed for food use, including dehydration and manufacture of flour, starch, and glucose. Dehydration is expensive, the cost (exclusive of the cost of the potatoes) ranging from 12 to 25 cents per pound. Pound for pound, dehydrated potatoes and wheat have about equal caloric value. So, even when the Department has offered potatoes to processors for as low as 1 cent per 100 pounds f.o.b. for dehydration, takers have been few.

Until recently there has been little demand from abroad for either potato flour or starch. Domestically, the use of potato starch is confined principally to industrial purposes, largely to the manufacture of fine textiles, and with few exceptions the demand for potato flour has been light both historically and currently. During 1947-48 a considerable quantity of flour was exported, and in July 1948 arrangements were completed to furnish up to 200,000 tons of flour for relief feeding in Germany.

Production of glucose, a newer and less-known potato product, has been small and much of it in crude form has been used as a constituent in mixed animal feeds.

Nonfood Outlets: First outlet here is for livestock feed. Indirectly, this is a food use but, oddly, people who do not consider it wasteful to feed corn, oats, or other grains to livestock do consider it wasteful to feed potatoes. Yet production of potatoes specifically for livestock feed is a standard operation in Europe.

The only planned disposition of potatoes wholly outside of food lines has been in the distillation of alcohol. This was particularly useful in connection with the huge 1946 crop, when there was the coincidence of short grain supplies. The Department was able to utilize about 29 million bushels which would have been wasted had there not been a demand for them in the manufacture of beverage and industrial alcohol. In addition, this utilization replaced an equivalent quantity of food and feed grains and molasses, a benefit frequently overlooked.

Potato Losses Under Price Support

Some losses are inevitable in handling a perishable commodity, but they receive little public attention when the burden falls on private enterprise. Private enterprise ordinarily buys only what it thinks it can sell. The Department is compelled by law to buy all potatoes offered which are

eligible for price support. This means that acquisitions must sometimes exceed outlets. But even in the 1946 season when losses were greatest (34.0 million bushels) they amounted to only 7.0 percent of total production.

In 1947, the Department's losses other than normal deterioration in storage amounted to only about a half-million bushels, or slightly over one-tenth of one percent of estimated total production. So far in the 1948 crop season, there have been no losses beyond normal deterioration in transit and storage.

The Problem of Funds

The Department has not been authorized to take all of the additional steps necessary to export, process, or otherwise handle potatoes to prevent all loss. The principal reason is that the Department is obligated to support prices to growers. It has had certain funds to discharge this obligation, and none for carrying out foreign relief projects. This situation was modified somewhat by the Foreign Aid Act of 1947 and the Economic Cooperation Act of 1948, but the Department still must operate on an effective compromise between least cost, regardless of waste, and complete salvage, regardless of cost.

Future Price Support

The Agricultural Act of 1948 continues price support at the 90 percent of parity level on potatoes harvested prior to January 1, 1949. For practical purposes, this means that support on the current basis will apply to all of the 1948 crop. Beginning with potatoes harvested in the calendar year 1949, the support may vary between 60 and 90 percent of parity. This not only makes possible desirable program flexibility to meet changing conditions, but should influence future production and price levels.

Statistics

Statistics of potato price-support operations during the 1946 and 1947 seasons are shown in the attached tables. Data on the 1948 season are covered in periodic releases of which the latest available is attached.

POTATOES: Summary of Price Support Operations
1946 Crop

Production, Total Operations and Method of Disposition	: Quantity	: Percent of total	: Percent of total
	: Purchases	: Production	
	: 1	: 2	: 3
	<u>mil. bu.</u>	<u>percent</u>	<u>percent</u>
Production	484.2	-	100.0
Total Operations	108.5	100.0	22.4
Disposition			
School Lunch & Welfare Institutions	4.1	3.8	.8
Export	11.4	10.5	2.4
Mfr. of Starch, Flour & Glucose	9.6	8.8	2.0
Livestock Feed	19.6	18.1	4.0
Manufacture of Alcohol	29.8	27.5	6.2
Losses	34.0	31.3	7.0
Total	108.5	100.0	22.4

POTATOES: Preliminary Summary of Price Support Operations
1947 Crop

Production, Purchase and Disposition	: Quantity : 1 : <u>mil. bu.</u>	: Percent of total : Purchases : 2 : ---	: Percent of total : Production : 3 : <u>percent</u> ---
Production	384.4	-	100.0
Total Operations	35.1	100.0	9.1
Disposition			
School Lunch & Welfare Distribution	3.6	10.2	.9
Export, Fresh	12.2	34.6	3.2
Re-sale for Food Use	.2	.6	.1
Mfr. of Starch & Flour	7.8	22.2	2.0
Dehydration for Export	1.2	3.5	.3
Demonstration	.3	.7	.1
Livestock Feed	2.4	6.8	.6
Alcohol	6.9	19.9	1.8
Losses	.5	1.5	.1
Total	35.1	100.0	9.1

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A2 P8431948 POTATO PRICE SUPPORT PROGRAMSupport level

P.-90% of Jan. 1 parity for early and 90% of July 1 parity for late crop (\$2.92 cwt. weighted average for U. S. No. 1 sacked and loaded.)

L.-75% of Sept. support price (\$1.50 cwt., No. 1 bulk)

Service fee

P.-2¢ cwt. (minimum \$3.00), or 1¢ if paid early.

L.-1¢ cwt. (minimum \$5.00)

Area of operation

P.-Continental United States

L.-Late-crop producing States

Period of operation

P.-Feb. 26, 1948-June 30, 1949

L.-Sept. 15-Dec. 15, 1948. Mature 4/30/49

Eligibility

Producers holding eligibility certificates, and dealers or processors who have entered into dealer agreements with CCC.

Procedure

P.-Vendor (producer or contracting dealer) applies to county committee for Certificate of Eligibility prior to harvest and pays fee on the quantity of potatoes to be supported. After purchase announcement is issued, producer submits informal offer of sale, oral or written, to the purchase representative, either direct or through the county committee. Purchase representative accepts offer, if it is within the limitations of the Buying Directions and allocations, and gives the producer instructions for loading potatoes in cars. Vendor submits voucher, and supporting documents (inspection certificate, bill of lading, etc.) to purchase representative, who signs the Certificate of Receipt, and forwards voucher to the paying office. Payment is made by sight draft which is issued by the State Office and mailed to the vendor.

L.-Borrower must have Eligibility Certificate and pay fee before making application for loan, or must have signed Dealer Agreement. Application for loan is made at the office of county committee. After applicable parts of loan documents are completed by the county office, they are given to the inspector who must inspect the potatoes and storage structure, seal the bin and certify on loan application as to condition of storage and eligibility, quantity and quality of potatoes. Borrower pays service fee to county office, signs the "Producer's Note" and Chattel Mortgage, takes it to an approved lending agency who makes disbursement to the borrower. Or, in case of notes to be held by CCC, the county office forwards note and Chattel Mortgage to the State Office where a sight draft is issued and mailed to borrower. Repayment of loan and interest is made to the lending agency on notes held by lending agencies and to the county committee on notes held by CCC. When loan is paid in full, the county office arranges for release of Chattel Mortgage. Loans are recourse loans repaid in cash or from proceeds of sale of collateral.

Problems

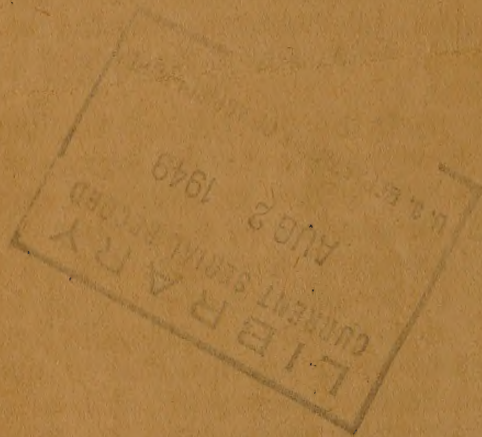
Although compliance with acreage goals has been relatively good, improved cultural practices and disease and insect control have resulted in tremendously increased yields per acre and a continuing surplus far in excess of expectations.

1948 POTATO PRICE SUPPORT PROGRAM

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The strict requirement of 90 percent support without corresponding powers to regulate production or marketings have combined to necessitate the heavy purchases made under the program. A lower support level would have made the production of potatoes less attractive to producers.

Because of the large water content, particularly in early potatoes, they cannot be stored successfully. To dispose of them during surplus seasons makes it necessary to sell at low prices and consequently heavy losses result. This has caused much unfavorable publicity and has brought a great number of Congressional inquiries and criticisms of the program. As a result economic use has been made of all potatoes purchased even though this has greatly increased cost of the program.



Source of info.: Program dockets; FMA instruction 124.2
12/15/48